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Low salaries lead to insufficient retirement savings, says economist

By Asila Jalil, Faiqah Kamaruddin - September 27, 2024 @ 8:01am



A low retirement savings among most Malaysians is a structural problem stemming from multiple factors including the labour market's low salary, according to an economist. STU/ AHMAD UKASYAH

KUALA LUMPUR: A low retirement savings among most Malaysians is a structural problem stemming from multiple factors including the labour market's low salary, according to an economist.

This problem requires a holistic approach with a sense of urgency, Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said, in response to Khazanah Research Institute's (KRI) report that those under 30 years of age will have insufficient basic savings by the retirement age of 55.

The KRI report found that over 90 per cent of Employees Provident Fund (EPF) members under 30 years of age will not have enough basic savings of RM240,000 by the retirement age.

EPF members make up 60 per cent of the labour market, excluding those working in the public and the informal sector.

According to EPF's estimation, an individual needs to have a minimum of RM35,000 by age 30 in order to achieve basic retirement savings of RM240,000 by age 55.

KRI said data of EPF members' contributions from 2019 to 2022 showed that only the top 10 per cent in the below 30 years of age category have more than RM35,000.

Afzanizam said the KRI findings are consistent with the state of the labour market whereby the rate of skill-related underemployment rose steadily from 32.5 per cent in the first quarter of 2018 (Q1 2018) to 37 per cent in Q2 2024.

He said it is a structural problem that begins with a low salary which eventually leads to insufficient retirement savings for the age group.

"Similarly, the share of tertiary educated labour force is at 31.3 per cent in the Q2 2024 after reaching a peak of 32.5 per cent in the Q3 2021.

"Hence, the income and wealth inequality are widening and therefore, there is an urgency to ensure that growth and development strategy will continue to remain inclusive and on a need basis.

" If the situation is not being attended holistically, it might lead to social problems such as higher crime rate, mental health, and corruption," he told Business Times.

He added the government's efforts to review the minimum wage as well as introducing a progressive wage policy are necessary to curb the issue.

"But the nature is merely reactive to the prevailing symptom which is low wages. We need to tackle the root cause which can be multi-faceted.

"The problems might start with education as knowledge is key to producing effective and productive workers. We also need to look at the economic complexity as this would mean there will be more economic activities that require a higher skill set, knowledge and technology," he said.

It is also crucial to review companies' fixation towards a low cost business model which is shown in their hiring of low cost and low skilled foreign workers.

Afzanizam added that the various government-linked companies at the federal and state level also affect the competitive dynamics as it hinders innovation and creativity.

"The true-blue entrepreneurs will not be able to compete with the GLCs in various sectors. Perhaps, the role of the labour union would need to be looked at as their role is also critical in determining a better level of compensation for the employees.

"So, it is an ecosystem that we need to observe that would encourage mechanisms to set the wage rate," he said.